
AUDIT REPORT



WAUKESHA COUNTY COMMUNITY DEVELOPMENT BLOCK GRANT AND HOME INVESTMENT PARTNERSHIP PROGRAMS

WAUKESHA, WISCONSIN

2004-CH-1002

NOVEMBER 26, 2003

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	November 26, 2003
Audit Case Number	2004-CH-1002

TO: Robert S. Berlan, Director of Community Planning and Development, 5ID

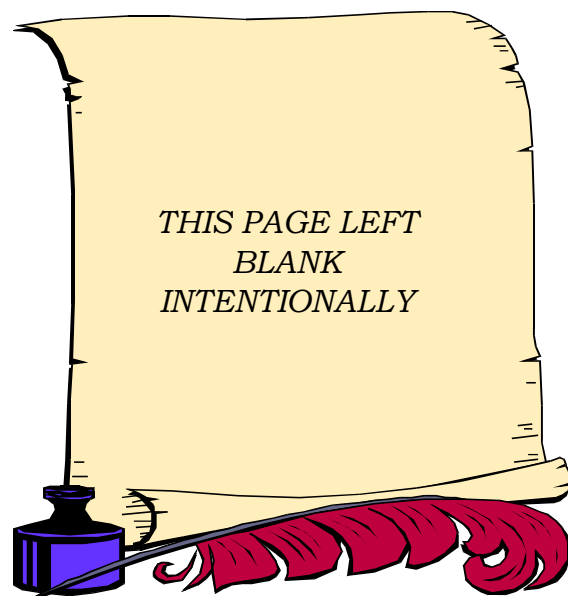
FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Waukesha County
Community Development Block Grant and HOME Investment Partnership
Programs
Waukesha, Wisconsin

We completed an audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs. The audit was conducted based on a citizen complaint to our Office. The objectives of the audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Programs were followed. The audit resulted in two findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Brent Bowen, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2675 or me at (312) 353-7832.



Executive Summary

We completed an audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs. The audit was conducted based on a citizen complaint to our Office. The objectives of the audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Programs were followed.

The complainant's specific allegations were: (1) abuse of HUD's HOME Investment Partnership Program in the State of Wisconsin; (2) poorly kept records with the intent to cover up discrepancies in funds given to individuals; and (3) HUD funds went to prominent elected officials or their spouses to acquire properties.

Although we were not able to substantiate any of the complainant's allegations, we found that Waukesha County did not follow Federal requirements regarding its Block Grant and HOME Programs. Specifically, the County did not ensure that:

- Federal requirements and its Agreements with Waukesha County Economic Development Corporation, the County's Loan Administrator, were followed regarding documentation maintenance for 16 economic development loans;
- Federal requirements and its Agreements with the Corporation were not followed for two economic development loan agreements since the agreements either failed to meet HUD's national objective of creating job opportunities for low and moderate-income persons or permitted Block Grant funds to pay for pre-award costs; and
- Federal requirements were followed to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards.

The County's Controls Over Economic Development Loans Were Inadequate

The County did not ensure that the Corporation followed Federal requirements and the County's Agreements with the Corporation regarding economic development loans. Specifically, the County and the Corporation lacked adequate documentation to support that \$463,734 in Block Grant loans were used for eligible expenses. In addition, the County allowed two loan agreements totaling \$306,000 to be executed with provisions that violated Federal requirements and its Agreements with the Corporation. The Corporation's President said he was unaware that supporting documentation must be kept for four years to support the use of Block Grant funds. The County failed to adequately monitor the administrator to ensure that Block Grant Program loans were properly awarded and serviced.

The County Needs To
Improve Its Controls To
Ensure Assisted Houses
Meet Local Codes And/Or
HUD's Standards

The County did not follow Federal requirements to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards. The County did not include \$650 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's Standards. The County also failed to assure local building permits were issued and assisted houses passed local inspections. The problems occurred because the County lacked adequate controls to assure houses met local building codes and/or HUD's Housing Quality Standards after they received housing rehabilitation assistance.

Recommendations

We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures that the County reimburses its appropriate Program for the inappropriate use of HUD funds and implements controls to correct the weaknesses cited in this report.

We presented our draft audit report to the County's Community Development Block Grant Coordinator and HUD's staff during the audit. We held an exit conference with the County's Coordinator on October 22, 2003. The County indicated it was in the process of acquiring documentation to support the use of HUD's funds. The County agreed that two loan agreements executed by Waukesha County Economic Development Corporation violated Federal requirements and the County's Agreements with the Corporation. The County disagreed that some of the cited housing rehabilitation work was improperly performed or not provided. The County provided documentation that other work cited was subsequently provided. The County agreed that some local permits were not obtained for completed housing rehabilitation work.

We included paraphrased excerpts of the County's comments with each finding (see Findings 1 and 2). The complete text of the comments is in Appendix B.

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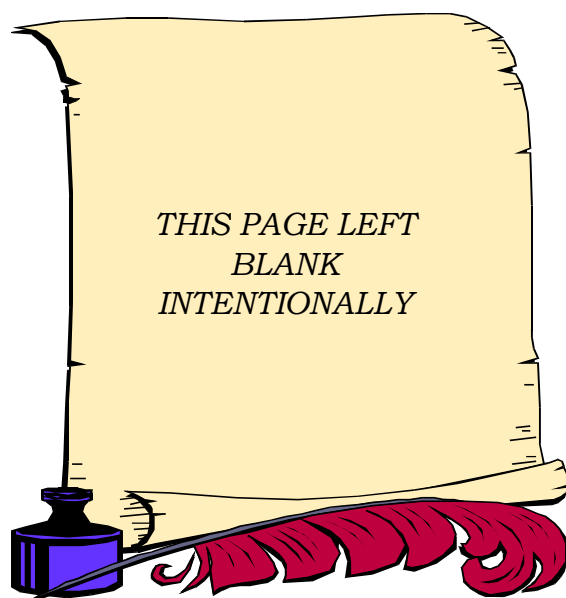
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Introduction

The Community Development Block Grant Program. Under Title I of the Housing and Community Development Act of 1974, HUD provides funding for the Community Development Block Grant Program. The primary purpose of the Block Grant Program is to develop and maintain viable communities that provide decent housing, a suitable living environment, and expanding economic opportunities for low and moderate-income persons. The Block Grant Program provides a flexible local decision making tool for assisting local governments in meeting identified needs through innovative and comprehensive approaches to improve the physical, economic, and social conditions throughout the community.

The HOME Investment Partnerships Program. Authorized under Title II of the Cranston-Gonzales National Affordable Housing Act, as amended, the HOME Investment Partnerships Program is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new homebuyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance.

Waukesha County. Organized under an executive form of government, Waukesha County provides economic development loans and housing rehabilitation throughout the County. The County has a Community Development Block Grant Program that is governed by a Board of Directors, appointed by the County Executive. The County Executive is responsible for coordinating and directing the administrative and management functions of the County. The Chairperson of the Board of Supervisors leads the policy-decision making process for the County. The Community Development Coordinator is responsible for coordinating the County's Block Grant and HOME Programs. Operating on a fiscal year, January 1 through December 31, the County maintains its Programs' records at 1320 Pewaukee Road, Waukesha, Wisconsin.

HUD awarded the County a combined total of over \$16 million in Community Development Block Grant and HOME Investment Partnership Programs funds. The following table shows the amount of Program funds.

<i>Fiscal Years</i>	<i>Program</i>	<i>Funding</i>
1997-2002	Community Development Block Grant	\$12,518,000
1998-2002	HOME Investment Partnership	<u>3,912,000</u>
	Total	<u>\$16,430,000</u>

Waukesha County entered into agreements with the Waukesha County Economic Development Corporation and Community Housing Initiative to administer programs within the County's Community Development Block Grant and HOME Investment Partnership Programs.

Waukesha County Economic Development Corporation. Using the County's Block Grant Program funds, Waukesha County Economic Development Corporation agreed to create local employment opportunities and increase local incomes by creating, maintaining, and expanding

manufacturing and commercial businesses throughout the County. The Block Grant monies fund economic development loans to organizations located in Waukesha County.

Community Housing Initiative. Using the County's Block Grant and HOME Program funds, Community Housing Initiative, the County's Housing Rehabilitation Administrator, agreed to carry out program activities, which include housing rehabilitation, down payment and closing cost assistance, homebuyer counseling, affordable housing development, rental rehabilitation, and special projects.

Audit Objectives

The audit objectives were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed.

Audit Scope And Methodology

We performed our on-site work between March and July 2003. We conducted our audit work at: HUD's Milwaukee Field Office; Waukesha County's Community Development Office; Waukesha County Economic Development Corporation's Office, and Community Housing Initiative's Office.

To accomplish our audit objectives, we interviewed: HUD's staff; the County's employees; the Economic Development Corporation's staff; Community Housing Initiative's employees; and 15 homeowners whose properties were assisted by the County.

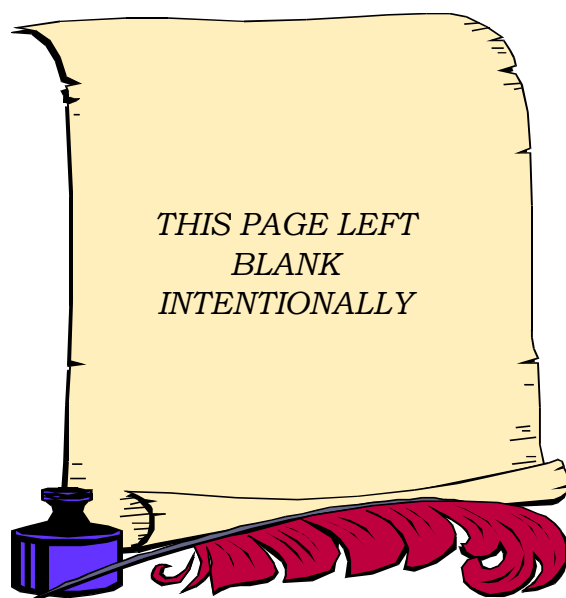
To determine whether HUD's rules and regulations were followed, we reviewed the following for the period of January 1997 through December 2002: the County's Community Development Block Grant and HOME Investment agreements with HUD; all contracts between Waukesha County and the Economic Development Corporation and Community Housing Initiative to include a review of standard operating procedures; and the 16 loan files for the economic development loans awarded between January 1, 1998 and December 31, 2002. We also reviewed: the County's audited financial statements for the fiscal year ending December 31, 2001; Office of Management and Budget Circulars A-87, A-110, and A-122; and 24 CFR Parts 84, 85, 92, and 570.

We reviewed housing rehabilitation participant files for all 21 homes assisted by the County between March 1, 2001

and February 28, 2003. Of the 21 assisted homes' files, 15 lacked evidence that the County ensured the homes met local building code and/or HUD's Housing Quality Standards. A HUD-OIG Appraiser/Construction Specialist inspected all 15 homes to determine whether they met local code and/or HUD's Standards. We used Computer Assisted Audit Techniques to analyze the County's and its administrators' records.

The audit covered the period January 1, 1997 to December 31, 2002. This period was adjusted as necessary. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the County's Executive Director, Chairman of the Board of Supervisors, and its Coordinator for the Programs.



The County's Controls Over Economic Development Loans Were Inadequate

Waukesha County did not ensure that Waukesha County Economic Development Corporation, the County's Loan Administrator, followed Federal requirements and the County's Agreements with the Corporation regarding economic development loans. Specifically, the County and the Corporation lacked adequate documentation to support that \$463,734 in Community Development Block Grant loans were used for eligible expenses. In addition, the County allowed two loan agreements totaling \$306,000 to be executed with provisions that violated Federal requirements and its Agreements with the Corporation. The Corporation's President said he was unaware that supporting documentation must be kept for four years to support the use of Block Grant funds. The County failed to adequately monitor the Corporation to ensure that Block Grant Program loans were properly awarded and serviced. As a result, the County's Block Grant funds were not used efficiently and effectively.

Federal Requirements

The Community Development Block Grant Agreements for January 1, 1998 through December 31, 2002, between HUD and Waukesha County, required the County to comply with 24 CFR Part 570.

24 CFR Parts 570.502(a)(4), 570.502(a)(14), and 570.502(b)(3)(ix) require Waukesha County to comply with 24 CFR Parts 85.20 and 85.40. 24 CFR Part 85.40 also requires the County's Loan Administrator to follow Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations.

Office of Management and Budget Circular A-122, Attachment B, Section 38, states pre-award costs are those incurred prior to the effective date of the award where the costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are eligible only to the extent that they would have been allowable if incurred after the date of the award and only with written approval of the awarding agency.

24 CFR Part 84.53(b) and 24 CFR Part 570.502(b)(ix) A and B require Waukesha County to retain supporting financial documents for a period of four years after the final Annual Performance and Evaluation Report is submitted to HUD. 24 CFR Part 85.20(b)(2) requires the County and its

subrecipients to maintain records that adequately identify the source and application of funds provided for financially-assisted activities.

24 CFR Part 85.40(a) states Waukesha County is responsible for managing the day-to-day operations of its Community Development Block Grant Program to assure compliance with applicable Federal requirements and that performance goals are being achieved. The County's monitoring must cover each program, function, or activity.

24 CFR Part 570.200(a)(2) requires that grant recipient activity under the Entitlement Program be assisted with Community Development Block Grant funds only if it complies with a national objective. 24 CFR Part 570.208(a)(4) states one national objective is the creation of jobs for low to moderate-income persons.

County's Agreements

Page 4 of Waukesha County's Agreements with Waukesha County Economic Development Corporation, the County's Loan Administrator, for January 1, 1998 through December 31, 2001 required the Corporation to comply with 24 CFR 570.502. Section II.A of the Agreements states the Corporation will provide business loans. Exhibit A, Section A, of the Agreements states the business loans will create employment opportunities for low to moderate-income persons.

The County Failed To Provide Supporting Documentation

Waukesha County funded 16 economic development loans totaling \$2,364,000 through its Community Development Block Grant Program. Waukesha County Economic Development Corporation awarded the loans between January 1, 1998 and December 31, 2002. The County's Block Grant Program funded an average of \$472,800 in economic development loans per year for the five year period.

The County and the Corporation initially lacked supporting documentation for all 16 loans reviewed. During our audit, we requested documentation and the County provided support for seven of the 16 loans. However, the County lacked documentation to support the remaining nine loans, totaling \$1,212,479 in Block Grant funds, were expended for intended purposes as required by HUD's regulations and its Agreements with the Corporation. As of June 25, 2003, four

of the nine loans were paid off. The remaining five active loans had an outstanding balance of \$482,303. Of the \$482,303, the County and the Corporation lacked documentation to support \$463,734 in Block Grant loan funds. The following table shows for each loan: the employer; award date of the loan; original loan amount; outstanding loan amount as of June 25, 2003; and the unsupported outstanding loan amount.

Employers	Award Date	Original Loan Amount	Outstanding Loan Amount	Unsupported Outstanding Loan Amount
KCS Industries	03/23/98	\$ 150,000	\$0	\$0
TAPCO	06/08/98	150,000	0	0
On-Belay	07/26/98	150,000	0	0
Dakota Intertek Corporation	02/02/99	45,000	29,037	29,037
Twins Transport	02/23/99	200,000	0	0
Darsk, LLC/Learning Edge	03/24/00	75,000	47,019	47,019
La Casa de Esperanza	12/01/00	200,000	157,221	157,221
Innovative Plastic Technologies	11/06/01	200,000	171,048	152,479
United Press & Graphics, Inc.	12/18/02	<u>90,000</u>	<u>77,978</u>	<u>77,978</u>
Totals		<u>\$1,260,000</u>	<u>\$482,303</u>	<u>\$463,734</u>

The President of the Corporation said he was unaware that HUD's regulations and/or the County's Agreements with the Corporation required the County and/or the Corporation to maintain records that adequately identified the source and application of funds for Federally sponsored activities for a four year period. Additionally, the County failed to adequately monitor the Corporation to ensure adequate documentation was maintained to support the use of the Block Grant funds.

Two Loan Agreements Violated Federal Requirements

The loan agreements executed by Waukesha County Economic Development Corporation with Phoenix International and Innovative Plastic Technologies included provisions that violated Federal requirements and its Agreements with Waukesha County. The County did not adequately monitor the Corporation to ensure the loan agreements were reviewed for compliance with Federal requirements.

Contrary to HUD's requirements, the Corporation's \$106,000 loan agreement with Phoenix International did not require the County's Community Development Block

Grant funds to be used for a HUD national objective. One of the national objectives is the creation of jobs for low to moderate-income persons. Furthermore, the terms of the loan agreement did not require the business loan to create employment opportunities for low to moderate-income persons as required by the County's Agreement with the Corporation. The loan agreement, which was approved by the Corporation's former President, specifically stated the loan would not result in the creation of new jobs at Phoenix International. As a result, \$106,000 in Block Grant funds was not efficiently and effectively used. The outstanding loan balance as of June 25, 2003 was \$105,998.

A provision of the Corporation \$200,000 loan agreement with Innovative Plastic Technologies permitted Block Grant funds to be used to reduce the company's accounts payable. This provision was contrary to Office of Management and Budget Circular A-122, Attachment B, Section 38, which permits pre-award costs only with written approval of the awarding agency. The \$3,428 of accounts payable was incurred prior to the loan agreement's execution date and was paid without HUD's written approval. The Corporation's President said he did not know how the provision slipped by his and the loan committee's review. As a result, \$3,428 of the County's Block Grant loan funds was used to pay inappropriate expenses. The outstanding loan balance as of June 25, 2003 was \$171,048.

The County's Controls
Over Its Program Were
Not Adequate

The problems occurred because Waukesha County lacked adequate controls over its economic development loan program. The County did not adequately monitor the Corporation to ensure documents were maintained and loan agreements complied with Federal requirements and the County's Agreements with the Corporation. The Corporation did not maintain the proper documentation because its President was not aware that supporting documentation was required to be maintained for four years. As a result, HUD funds were not used efficiently and effectively.

Auditee Comments

[Excerpts paraphrased from Waukesha County's comments on our draft audit report follow. Appendix B, pages 30 and

42 to 44, contains the complete text of the comments for this finding.]

HUD's Office of Inspector General did not uncover any monetary discrepancies or misuse of Federal funds.

The County is in the process of acquiring the supporting documentation to verify the use of Federal funds for the five active loans with outstanding balances. All documentation will be obtained within 45 days of October 27, 2003.

The County reached an agreement with the owners of Phoenix International to amend the original loan agreement to require Phoenix International to meet HUD's national objective of creating jobs for low and moderate-income persons. The County will acquire within 45 days of October 27, 2003 the job creation documentation from the subcontractors identified in the original loan agreement between Waukesha County Economic Development Corporation and Phoenix International to confirm that jobs were created as intended by the loan agreement.

The \$3,428 of ineligible expenditures from the Corporation's loan agreement with Innovative Plastic Technologies will be repaid as part of the loan repayment.

The County hired legal counsel to review its existing loan procedures and loan documents. The County completed the necessary revisions so job creation and the use of Federal funds is properly documented. The County's staff will also review all approved loan agreements prior to the final execution to ensure all requirements and loan terms are included as required.

The County amended its policies and procedures and loan agreements to require that HUD's national objective of creating jobs for low to moderate-income persons be met by the principal borrower and not by subcontractors or any other means. The County also clarified the documentation that must be submitted to support job creation.

The County, through the Corporation, hired private legal counsel to review and revise the Corporation's current loan documents to ensure compliance with Office of

Management and Budget Circular A-122 and 24 CFR Parts 84.53(b), 85.20(b)(2), 570.200(a)(2), and 570.502(b)(ix) in regards to job creation and the maintenance of supporting documentation for four years. The County's staff will also review all of the Corporation's approved loan agreements to ensure provisions related to job creation, use of funds documentation, and the purpose of the loan are eligible.

The additional policies and procedures, along with previous modifications to the Corporation's policies and procedures, should ensure compliance with Federal requirements.

**OIG Evaluation Of
Auditee Comments**

Waukesha County did not ensure that Waukesha County Economic Development Corporation, the County's Loan Administrator, followed Federal requirements and the County's Agreements with the Corporation regarding economic development loans. Specifically, the County and the Corporation lacked adequate documentation to support that \$463,734 in Community Development Block Grant loans were used for eligible expenses. In addition, the County allowed two loan agreements totaling \$306,000 to be executed with provisions that violated Federal requirements and its Agreement with the Corporation.

The County should provide documentation to support the use of Community Development Block Grant funds totaling \$463,734 for the five outstanding loans cited in this finding was expended for eligible activities. If documentation cannot be provided, the County should indemnify its Block Grant Program the appropriate amount from non-Federal funds.

The County did provide an amendment to the Corporation's loan agreement with Phoenix International requiring Phoenix International to meet HUD's national objective of creating jobs for low and moderate-income persons. However, the amendment was not executed. Therefore, the County should indemnify its Block Grant Program \$105,998 from non-Federal funds for the inappropriate use of Block Grant funds cited in this finding.

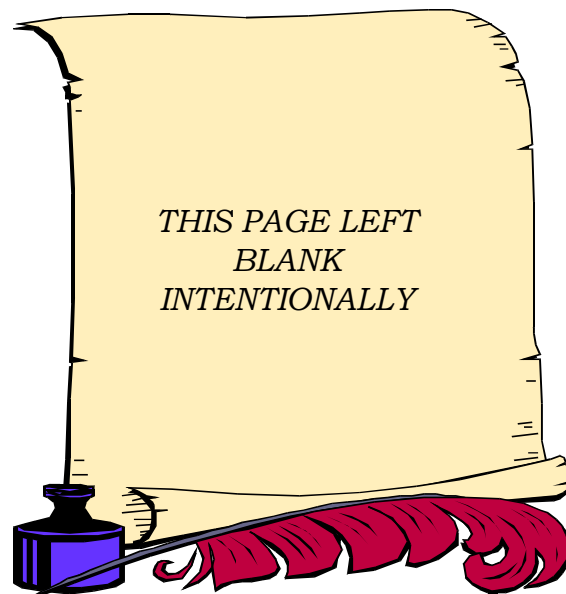
The County should also indemnify its Block Grant Program \$3,428 from non-Federal funds for the inappropriate use of funds cited in this finding.

The actions planned by the County, if fully implemented, should ensure compliance with Federal requirements.

Recommendations

We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures Waukesha County:

- 1A. Provides documentation to support the use of Community Development Block Grant funds totaling \$463,734 for the five outstanding loans cited in this finding were expended for eligible activities. If documentation cannot be provided, the County should indemnify its Block Grant Program the appropriate amount from non-Federal funds.
- 1B. Indemnifies its Community Development Block Grant Program \$109,426 (\$105,998 plus \$3,428) from non-Federal funds for the inappropriate use of Block Grant funds cited in this finding.
- 1C. Implements adequate procedures and controls to ensure that the County and its Loan Administrator comply with HUD's regulations and/or Office of Management and Budget Circular A-122 regarding the use of Community Development Block Grant funds. These improvements should help ensure that the County's annual average of \$472,800 in economic development loans meet Federal requirements.



The County Needs To Improve Its Controls To Ensure Assisted Houses Meet Local Codes And/Or HUD's Standards

Waukesha County did not follow Federal requirements to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards. The County did not include \$650 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's Standards. The County also failed to assure local building permits were issued and assisted houses passed local inspections. The problems occurred because the County lacked adequate controls to assure houses met local building codes and/or HUD's Housing Quality Standards after they received housing rehabilitation assistance. As a result, HUD lacks assurance that houses met the local building codes and/or HUD's Housing Quality Standards after receiving housing rehabilitation assistance. Additionally, the County's HOME funds were not efficiently and effectively used.

Federal Requirements

The HOME Agreements for the period January 1, 2001 to December 31, 2002, between HUD and Waukesha County, required the County to comply with 24 CFR Part 92.

24 CFR, Subpart F, Part 92.251 requires housing rehabilitated with HOME funds to meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. In the absence of local code, properties rehabilitated with HOME funds must meet, as applicable, one of three model codes or the Minimum Property Standards in 24 CFR Parts 200.925 or 200.926.

24 CFR Part 200.926 requires that state code be used where local code is not available.

24 CFR Part 92.504(a) says the County is responsible for managing the day-to-day operations of its HOME Program, ensuring that HOME funds are used in accordance with all Program requirements and written agreements, and taking appropriate action when performance problems arise.

24 CFR Part 85.40 requires grantees to be responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-

grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Agreements Requirements

The housing rehabilitation agreements for the period January 1, 2001 through December 31, 2002, between Waukesha County and Community Housing Initiative, the County's Housing Rehabilitation Administrator, required the Initiative to be responsible for application intake, determining eligibility, property inspection and specification development, assistance to the homeowner in the bid process (although bidding and award is the homeowner's responsibility), completion and execution of loan documents, work inspection, and approval of contract payments.

Sample Selection And Inspection Results

We selected all 21 housing units that received housing rehabilitation monies from Community Housing Initiative, the County's Housing Rehabilitation Administrator, between March 1, 2001 and February 28, 2003. The County used \$198,479 in HOME (\$63,341) and Community Development Block Grant (\$135,138) monies from HUD to fund the housing rehabilitation for the 21 houses. We selected the 21 houses to determine whether the City appropriately paid for housing rehabilitation work. Of the 21 houses, 15 lacked documentation to support that the units met local building code and/or HUD's Housing Quality Standards. Between July 8, 2003 and July 18, 2003, our Appraiser/Construction Specialist inspected the 15 houses.

We provided the inspection results to HUD's Milwaukee Field Office Director of Community Planning and Development and the County's Community Development Block Grant Coordinator.

Files Contained Incomplete Documentation

Fifteen (71 percent) of the 21 files for the properties rehabilitated with HUD funds were missing documentation necessary to assure HUD's Housing Quality Standards and/or local code were met. Ten of the 21 files contained Housing Quality Standards inspection forms, but none were signed and only two were dated.

Furthermore, only 18 of the 21 files had a scope of housing rehabilitation work. None of the scopes of housing

rehabilitation work were detailed enough for our OIG Appraiser/Construction Specialist to do a cost estimate to determine the reasonableness of the work. In addition, the scopes of work were not detailed enough to assure all work was completed properly. Eight of the 12 files that required proof of local building code inspections lacked any evidence of an inspection.

Four Properties Did Not Meet Housing Quality Standards And/Or Local Codes

Four of 15 properties inspected by our OIG Appraiser/Construction Specialist failed to meet Housing Quality Standards and/or local codes after work was completed. The Initiative did not complete final inspections for six of the 15 properties, and four additional property inspections were not completed in a timely manner. The four inspections ranged between 202 and 421 days after the final draw of the housing rehabilitation funds. Contractors working on four of the properties failed to obtain required local building permits. The work of two other contractors either was not inspected by a local inspector or did not pass local inspection. The following table identifies by property address: required work that needs to be performed to ensure the houses meet HUD's Housing Quality Standards and/or local code; and estimated costs to complete the required work.

<i>Property Address</i>	<i>Required Housing Rehabilitation Work</i>	<i>Estimated Cost</i>
1925 Highland Avenue	<ul style="list-style-type: none"> Smoke detector in basement was not attached and located improperly. A wall separated the detector from potential sources of fire. 	\$30
909 La Belle Avenue	<ul style="list-style-type: none"> No hand rail for front steps Deteriorated concrete at front steps - tripping hazard Second floor bathroom is not ventilated to exterior 	60 200 100
341 Genesee Street	<ul style="list-style-type: none"> No hand rail for basement stairs 	60
630 Westowne Avenue	<ul style="list-style-type: none"> No hand rail for stairs to the second floor 	<u>200</u>
Total		<u>\$650</u>

The following picture shows an example of required housing rehabilitation work to ensure assisted houses met HUD's Housing Quality Standard and/or local codes.

Finding 2

No handrail installed for the stairway accessing the second floor at 630 Westowne Avenue.



The County established its housing rehabilitation program to provide rehabilitation assistance to low and moderate-income homeowners in Waukesha County. The housing assistance was intended to correct items that did not meet local codes and HUD's Housing Quality Standards. An Inspector for the Initiative was responsible for assuring that the housing rehabilitation work was provided in accordance with the housing rehabilitation contract and that it met local codes and/or HUD's Standards.

Building Permits Were
Not Consistently
Obtained

Although HUD's regulations require that local codes must be enforced, the Initiative did not assure all required local permits were obtained. Eight of the 20 required local permits were not obtained. The Initiative took a survey to assess local codes and determined that since not all local jurisdictions applied building codes in the same way, the Initiative would adopt HUD's Housing Quality Standards as its standard. The Initiative rehabilitated houses using Community Development Block Grant and HOME Investment Partnership Program funds throughout a four-county area, which includes over 100 local jurisdictions. The Initiative's Executive Director said assuring local permits were issued and rehabilitation projects passed local inspections was impractical, and that all contracts required the contractors to obtain local permits.

We contacted the local jurisdictions to determine whether the Initiative's Executive Director was correct about the process being impractical. The process was relatively easy and given a description of the work to be done, local jurisdictions could easily advise as to the necessity for a permit, whether a permit was issued, and whether the work passed local

inspection. The following table lists properties where work was done without obtaining a timely local permit and work was completed which did not pass local inspection. The table also lists the type of permit required and the type of work that did not pass local inspection. The “Not Applicable” in the column entitled Did Not Pass Inspection represents where a permit was not obtained.

Property Address	Number Of Permits Required	Permits Not Obtained Timely	Did Not Pass Inspection	Comments
1925 Highland Avenue	3	3	Not Applicable	Siding, windows (including change of window to sliding door), and deck permits.
4265 North 162 nd Street	3	0	1	Electrical, plumbing, and structural permits. Structural did not pass.
524 South Main Street	1	1	Not Applicable	Work performed Oct 2001, heater permit not issued until May 2003. Not yet passed.
909 La Belle Avenue	3	3	Not Applicable	Roof, electrical, plumbing permits.
630 Westowne Avenue	<u>2</u>	<u>1</u>	<u>1</u>	Electrical/heating pulled but never inspected. Structural permit for door installation not applied for.
Totals	<u>12</u>	<u>8</u>	<u>2</u>	

Controls Over Housing Rehabilitation Were Not Adequate To Ensure Houses Met Requirements

Waukesha County lacked procedures and controls over housing rehabilitation work as required by 24 CFR Part 92.251. Housing Quality Standards reports were not always documented, signed, and/or dated. Scope of work write-ups were vague and insufficient to determine cost reasonableness. Four scopes of work did not include items necessary to bring the properties up to HUD’s Housing Quality Standards and/or local codes. Final inspections were not always completed.

Four of the 15 properties inspected failed to meet HUD’s Standards and/or local codes. The issuance of local permits and results of inspections were not tracked by the Initiative. Eight of the 20 required building permits were not issued, while two properties that had housing permits were either not inspected or did not pass local inspection. As a result, HUD lacks assurance that its Housing Quality Standards and/or local codes were met, or that funds for housing rehabilitation were spent efficiently and effectively.

Auditee Comments

[Excerpts paraphrased from Waukesha County's comments on our draft audit report follow. Appendix B, pages 53 to 61 and 65 to 67, contains the complete text of the comments for this finding.]

The County brought in a consultant to advise Community Housing Initiative on the attic insulation at 524 South Main Street. The consultant indicated the work was done to industry standard.

Wisconsin State code states grab bars must resist 200 pounds of pressure placed on the bar from all directions. Community Housing Initiative's Inspector applied his weight to the bathroom grab bars at South 74 West 14747 Lynn Drive and could not move or bend the bar.

The smoke detector was properly installed in the basement of 1925 Highland Avenue.

The handrail for the front steps of 909 La Belle Avenue was installed. Community Housing Initiative's Inspector tested concrete at the front of the steps and found it to be solid and level at the time of inspection. The Inspector and the homeowner did not find the deteriorated concrete to be a tripping hazard. HUD's Housing Quality Standards and local code do not require electrical outlets to be protected by Ground Fault Circuit Interrupters. The Standards and local code do not require ventilation of a second bathroom.

The handrail was installed for the basement stairs at 341 Genesee Street.

For 603 Westowne Avenue, HUD's Housing Quality Standards and local code do not require electrical outlets to be protected by Ground Fault Circuit Interrupters. The homeowner would not allow a handrail to be installed for the stairs to the second floor and the Initiative's Inspector felt the homeowner would be in a far worse situation if none of the repairs were completed due to the handrail not being installed. The homeowner indicated she did not want a handrail installed for the stairs to the second floor.

The Initiative revised its policies and procedures for housing rehabilitation work needing a permit by requiring contractors to provide evidence the rehabilitation work was inspected and approved by the local building inspector before payment for the work is made.

The Initiative will ensure the work not inspected at 630 Westowne Avenue is inspected at no cost to the homeowner. However, the Initiative believes the reference to permits for work at 4265 North 162nd Street is inappropriate due the work not being complete. The Initiative will ensure all inspections are completed once the project is completed.

The County concurs with the Initiative's corrective action and will review for permits during its future audits of the Initiative.

OIG Evaluation Of Auditee Comments

Waukesha County did not follow Federal requirements to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards. The County did not include \$650 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's Standards. The County also failed to assure local building permits were issued and assisted houses passed local inspections.

We adjusted our audit report by removing the County used \$1,199 of HOME funds to pay for housing rehabilitation work that was improperly performed. Non-HUD funds paid for the insulation at 524 South Main Street. The grab bars at South 74 West 14747 Lynn Drive were corrected. We also adjusted our audit report by removing the recommendation that the County ensures the \$1,199 of housing rehabilitation work cited in this finding is completed correctly using non-Federal funds.

We recognize the County ensured the following housing rehabilitation work not included in specifications was done: a smoke detector was properly installed in the basement of 1925 Highland Avenue; a handrail for the front steps of 909 La Belle Avenue was installed; and a handrail was installed for the basement stairs at 341 Genesee Street.

The deteriorated concrete at the front steps of 909 La Belle Avenue is a tripping hazard. We adjusted our audit report by removing the electrical outlets in bathrooms that were not protected with Ground Fault Circuit Interrupter devices. The second floor bathroom is not ventilated to the exterior.

We adjusted our audit report by removing that electrical outlets near the kitchen sink were not protected with Ground Fault Circuit Interrupter devices for 630 Westowne Avenue.

The homeowner would not allow a handrail to be installed for the stairs to the second floor of 630 Westowne Avenue. 24 CFR, Subpart F, Part 92.251 requires housing rehabilitated with HOME funds to meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

We adjusted our report by reducing the number of houses that the County should ensure the housing rehabilitation work that was not included in the specifications to one house. If the County is unable to assure the rehabilitation work is completed, then the County should reimburse its appropriate Program from non-Federal funds for the total amount of housing assistance that was provided to the applicable house.

We adjusted our report by including a recommendation that the County should implement procedures and controls to assure that homeowners refusing to have necessary work completed to bring the property to Housing Quality Standards and/or local code do not receive a housing rehabilitation loan.

Three permits were required for the house at 4265 North 162nd Street. None of the permits were obtained timely. The structural housing rehabilitation work did not pass inspection.

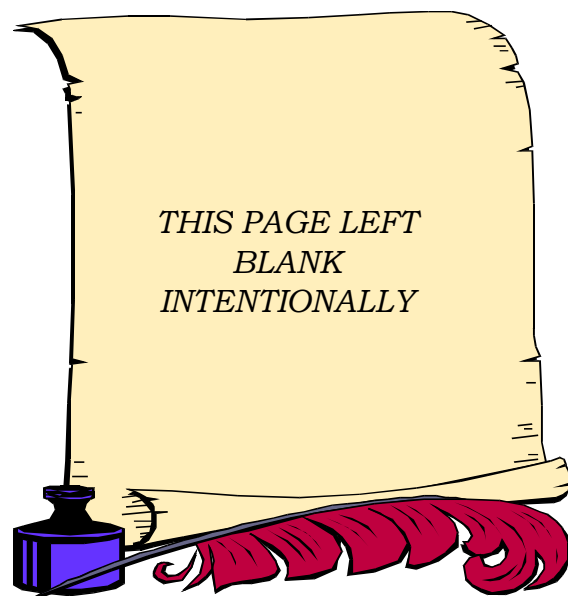
The County should implement procedures and controls to ensure that it and/or Waukesha County Economic Development Corporation follow Federal requirements and its housing rehabilitation contracts so that: (1) assisted houses meet HUD's Housing Quality Standards and/or local codes when completed; (2) specifications for housing rehabilitation work clearly detail the contracted work; (3)

local building permits are obtained prior to initiating the housing rehabilitation work; and (4) assisted houses pass local inspections.

Recommendations

We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures Waukesha County:

- 2A. Ensures the housing rehabilitation work that was not included in the specification for the one house is performed. If the County is unable to assure the rehabilitation work is completed, then the County should reimburse its appropriate Program from non-Federal funds for the total amount of housing assistance that was provided to the applicable house.
- 2B. Implements procedures and controls to ensure the County and/or Waukesha County Economic Development Corporation follow Federal requirements and its housing rehabilitation contracts so that: (1) assisted houses meet HUD's Housing Quality Standards and/or local codes when completed; (2) specifications for housing rehabilitation work clearly detail the contracted work; (3) local building permits are obtained prior to initiating the housing rehabilitation work; and (4) assisted houses pass local inspections.
- 2C. Implements procedures and controls to assure that homeowners refusing to have necessary work completed to bring the property to Housing Quality Standards and/or local code do not receive a housing rehabilitation loan.



Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined that the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations

The County failed to: ensure that Waukesha County Economic Development Corporation, the County's Loan Administrator, followed Federal requirements and its Agreements with the Corporation regarding economic development loans; and follow Federal requirements to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards (see Findings 1 and 2).

- Compliance with Laws and Regulations

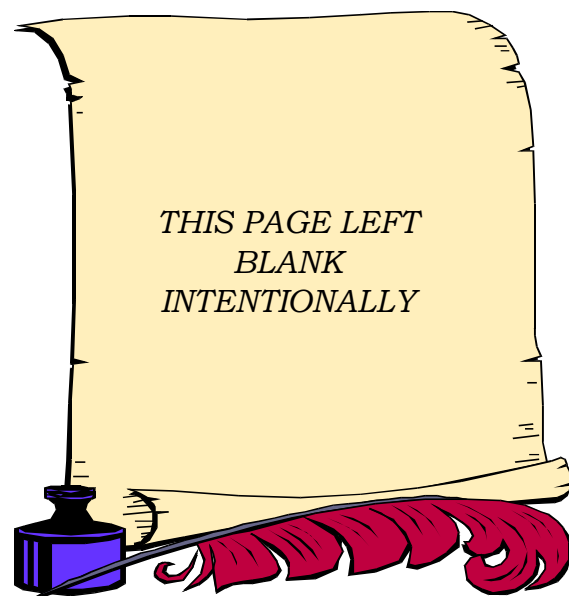
The County did not follow HUD's regulations and/or, Office of Management and Budget Circular A-122 regarding: (1) maintaining documentation to support the use of Block Grant funds for economic development loans; (2) using Block Grant funds for purposes that did not meet the national objective of creating job opportunities for low and moderate-income persons; (3) allowing Block Grant funds to be used for accounts payable that were incurred prior to a loan agreement's execution date and without HUD's written approval; and (4) ensuring that assisted houses met HUD's Housing Quality Standards and/or local codes when completed (see Findings 1 and 2).

- Safeguarding Resources

The County: lacked adequate documentation to support that \$463,734 in Community Development Block Grant loan monies were used for eligible expenses; and allowed \$109,426 of Block Grant funds to be used for inappropriate expenses (see Finding 1).

Follow-Up On Prior Audits

This is the first audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs by HUD's Office of Inspector General. The latest Independent Auditor's Report for the County covered the period ending December 31, 2002. The report contained no findings.



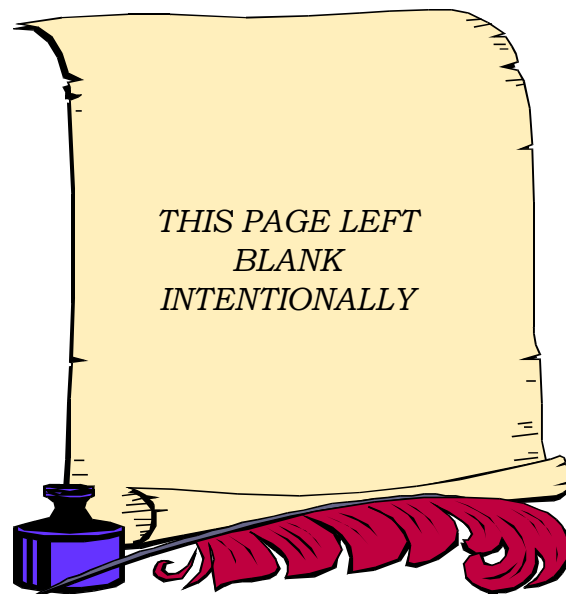
Schedule Of Questioned Costs And Recommendation For Funds To Be Put To Better Use

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>		<u>Funds To Be Put</u> <u>To Better Use</u> <u>3/</u>
	<u>Ineligible Costs</u> <u>1/</u>	<u>Unsupported Costs</u> <u>2/</u>	
1A		\$463,734	
1B	\$109,426		
1C			<u>\$472,800</u>
Totals	<u>\$109,426</u>	<u>\$463,734</u>	<u>\$472,800</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

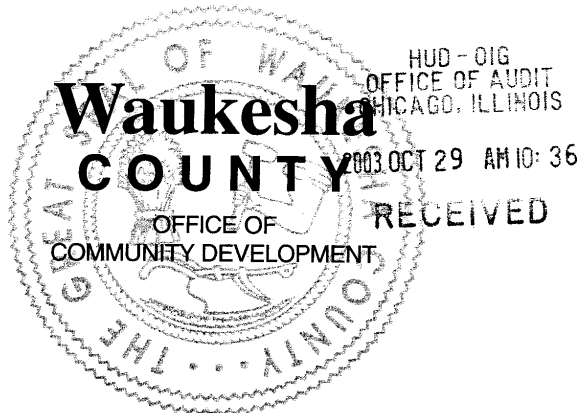
3/ Funds To Be Put To Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.



Auditee Comments

Daniel M. Finley
County Executive

October 27, 2003



Mr. Heath Wolfe
Regional Inspector General for Audit – Region V
Ralph Metcalfe Federal Building
77 W. Jackson Blvd., Suite 2646
Chicago, IL 60606-3507

RE: Audit Response: Waukesha County, WI

This letter is written in response to the audit of the Waukesha County Community Development Block Grant and HOME Investment Partnership (HOME) Program and findings contained in the draft audit report of the Office of the Inspector General (IG) for Audit, HUD.

Background: The audit was undertaken as a result of a **confidential** citizen complaint filed with the U.S. Department of Housing and Urban Development alleging three specific allegations, as indicated in the audit Executive Summary:

1. Abuse of HUD's HOME Investment Partnership Program in the State of Wisconsin
2. Poorly kept records with the intent to cover up discrepancies in funds given to individuals
3. HUD funds went to prominent elected officials or their spouses to acquire properties.

To determine whether or not these allegations were valid, staff from the Chicago Office of the Office of Inspector General – Region V undertook an extensive audit of internal county records, and the grant funded subgrantees: Community Housing Initiative, Hebron House of Hospitality and the Waukesha County Economic Development Corporation beginning in January 2003 through August 2003. On May 30, 2003, at the written request of the CDBG and HOME Board of Directors to determine the status of the audit, your staff, along with the Chairmen from the Waukesha County CDBG and HOME Boards, Milwaukee HUD office representatives and Waukesha County staff met to discuss the status of the audit and the original allegations. The auditors admitted that they were unable to obtain or verify with any documentation from the complainant or other sources that the originating allegations had any validity. However, notwithstanding the questionable allegations, the auditors indicated that the audit would continue and would be expanded beyond the original scope.

1320 Pewaukee Road • Room 320
Waukesha, Wisconsin 53188
Phone: (262) 548-7920 • Fax: (262) 896-8510
TDD: (262) 548-7903

The Audit: The auditors conducted extensive, detailed file reviews related to the use of CDBG / HOME funds at all three agencies and in the Waukesha County Community Development office. Based on the audit findings, we are please to note that no monetary discrepancies or misuse of federal funds was uncovered. Waukesha County will either correct any findings or provide the documentation to resolve your findings. The auditors also conducted a survey of the Waukesha County Board of Supervisors, CDBG and HOME Board members and their family members. Finally, the auditors conducted field reviews of homeowner properties that had received housing rehabilitation assistance.

As indicated in the audit Executive Summary, the auditors “**were not able to substantiate any of the complainants allegations...**” The auditors expanded the initial scope of the audit primarily to agencies with large expenditures of CDBG / HOME funds (whether or not they were a party to the original allegations), to include as previously indicated home inspections of housing rehabilitation loans, business loans through the Waukesha County Economic Development Corporation, and the use of CDBG / HOME funds for the purchase or development of special need or affordable housing.

Waukesha County is grateful that the auditors did not substantiate any of the original allegations and acknowledge that the auditor’s findings will assist Waukesha County in making the appropriate management changes to more effectively administer and monitor its CDBG / HOME programs.

Waukesha County responses to your audit findings are addressed in a format to meet the recommendations for the HUD Director of Community Planning and Development, Milwaukee Field Office review. We have also forwarded to you a computer disk should you want to cut and paste our response in another format.

Should you have any additional questions, please feel free to contact me.

Sincerely

A handwritten signature in black ink, appearing to read 'Glen Lewinski', with a large, stylized 'L' and 'W'.

Glen Lewinski
Community Development Coordinator

GL:kr

AUDIT REPORT
WAUKESHA COUNTY
COMMUNITY DEVELOPMENT BLOCK GRANT AND
HOME INVESTMENT PARTNERSHIP PROGRAMS
WAUKESHA, WISCONSIN
2004-CH-10XX
OCTOBER XX, 2003
OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL COMMENT ONLY

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL COMMENT ONLY In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit. Should you or your staff have any questions, please contact me at (312) 353-7832.

TO: Robert S. Berlan, Director of Community Planning and Development, 5ID

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Waukesha County

Community Development Block Grant and HOME Investment Partnership Programs
Waukesha, Wisconsin

We completed an audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs. The audit was conducted based on a citizen complaint to our Office. The objectives of the audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Programs were followed. The audit resulted in two findings.

Issue Date
October XX, 2003
Audit Case Number
2004-CH-10XX

Management Memorandum

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Executive Summary

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL COMMENT ONLY

We completed an audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs. The audit was conducted based on a citizen complaint to our Office. The objectives of the audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Programs were followed.

The complainant's specific allegations were: (1) abuse of HUD's HOME Investment Partnership Program in the State of Wisconsin; (2) poorly kept records with the intent to cover up discrepancies in funds given to individuals; and (3) HUD funds went to prominent elected officials or their spouses to acquire properties.

Although we were not able to substantiate any of the complainant's allegations, we found that Waukesha County did not follow Federal requirements regarding its Community Development Block Grant and HOME Investment Partnership Programs. Specifically, the County did not ensure that:

- HUD's Block Grant Agreements, its contracts with Waukesha County Economic Development Corporation, and HUD's regulations were followed regarding maintaining documentation for 16 economic development loans;
- HUD's regulations were followed for two economic development loan agreements since the agreements either failed to meet HUD's national objective of creating job opportunities for low and moderate-income persons or permitted Block Grant funds to pay for pre-award costs; and
- Federal requirements and its own contracts with Community Housing Initiative were followed to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards.

Waukesha County did not ensure that its Economic Development Loan Administrator followed Federal requirements regarding economic development loans. Specifically, the County's Loan Administrator, Waukesha County Economic Development Corporation, lacked adequate documentation to support that \$463,734 in Block Grant loan proceeds were used for eligible expenses. In addition, the County allowed two agreements totaling \$306,000 to be executed with provisions that violated HUD's regulations. The Loan Administrator's President said he was unaware that supporting documentation must be kept for four years to support the use of Block Grant funds. The County failed to adequately monitor the Administrator to ensure that Block Grant Program loans were properly awarded and serviced.

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Controls Over
Economic
Development
Loans Were
Inadequate Page iii
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Waukesha County did not follow Federal requirements and its own contracts with its housing rehabilitation administrator, Community Housing Initiative, to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards. The County inappropriately used \$1,199 of HOME funds to pay for rehabilitation work that was improperly performed and did not include almost \$1,000 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's Standards. The County also failed to assure local building permits were issued and assisted houses passed local inspections. The problems occurred because the County lacked adequate controls to assure houses met local building codes and/or HUD's Housing Quality Standards after they received housing rehabilitation assistance.

We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures that the County reimburses its appropriate Program for the inappropriate use of HUD funds and implements controls to correct the weaknesses cited in this report.

We presented our draft audit report to the County's Community Development Block Grant Coordinator and HUD's staff during the audit. We held an exit conference with the County's Coordinator on October XX, 2003.

We included paraphrased excerpts of the County's comments with each finding (see Findings 1 and 2). The complete text of the comments is in Appendix B.

Recommen
dations

The County Needs
To Improve Its
Controls To Ensure
Assisted Houses
Meet Local Codes
And/Or HUD's
Standards

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Introduction

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The Community Development Block Grant Program. Under Title I of the Housing and Community Development Act of 1974, HUD provides funding for the Community Development Block Grant Program. The primary purpose of the Block Grant Program is

to develop and maintain viable communities that provide decent housing, a suitable living environment, and expanding economic opportunities for low and moderate-income persons. The Block Grant Program provides a flexible local decision making tool for assisting local governments in meeting identified needs through innovative and comprehensive approaches to improve the physical, economic, and social conditions throughout the community.

The HOME Investment Partnerships Program. Authorized under Title II of the Cranston-Gonzales National Affordable Housing Act, as amended, the HOME Investment Partnerships Program is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new homebuyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance.

Waukesha County. Organized under an Executive form of government, Waukesha County provides economic development loans and housing rehabilitation throughout the County. The County has a Community Development Block Grant Program that is governed by a Board of Directors, appointed by the County Executive. The County Executive is responsible for coordinating and directing the administrative and management functions of the County. The Chairperson of the Board of Supervisors leads the policy-decision making process for the County. The Community Development Coordinator is responsible for coordinating the County's Block Grant and HOME Programs. Operating on a fiscal year, January 1 through December 31, the County maintains its Programs' records at 1320 Pewaukee Road, Waukesha, Wisconsin.

HUD awarded the County a combined total of over \$16 million in Community Development Block Grant and HOME Investment Partnership Programs funds. The following table shows the amount of Program funds.

<i>Fiscal Years</i>	<i>Program</i>	<i>Funding</i>
1997-2002	Community Development Block Grant	\$12,518,000
1998-2002	HOME Investment Partnership	<u>3,912,000</u>
	Total \$16,430,000	

Waukesha County entered into agreements with the Waukesha County Economic Development Corporation and Community Housing Initiative to administer the County's Community Development Block Grant and HOME Investment Partnership Programs.

Waukesha County Economic Development Corporation. Using the County's Block Grant Program funds, Waukesha County Economic Development Corporation agreed to create local employment opportunities and increase local incomes by creating, maintaining, and expanding

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manufacturing and commercial businesses throughout the County. The Block Grant

monies fund economic development loans to profit motivated companies located in Waukesha County.

Community Housing Initiative. Using the County's Block Grant and HOME Program funds, Community Housing Initiative agreed to carry out program activities, which include housing rehabilitation, down payment and closing cost assistance, homebuyer counseling, affordable housing development, rental rehabilitation, and special projects.

The audit objectives were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed.

We performed our on-site work between March and July 2003. We conducted our audit work at: HUD's Milwaukee Field Office; Waukesha County's Community Development Office; Waukesha County Economic Development Corporation's Office, and Community Housing Initiative's Office. To accomplish our audit objectives, we interviewed: HUD's staff; the County's employees; the Economic Development Corporation's staff; Community Housing Initiative's employees; and 15 homeowners whose properties were assisted by the County.

To determine whether HUD's rules and regulations were followed, we reviewed the following for the period of January 1997 through December 2002: the County's Community Development Block Grant and HOME Investment agreements with HUD; all contracts between Waukesha County and the Economic Development Corporation and Community Housing Initiative to include a review of standard operating procedures; and the 16 loan files for the economic development loans awarded between January 1, 1998 and December 31, 2002. We also reviewed: the County's audited financial statements for the fiscal year ending December 31, 2001; Office of Management and Budget Circulars A-87, A-110, and A-122; and 24 CFR Parts 84, 85, 92, and 570.

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We reviewed housing rehabilitation participant files for all 21 homes assisted by the County between March 1, 2001 and February 28, 2003. Of the 21 assisted homes' files, 15 lacked evidence that the County ensured the homes met

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Objective
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Scope
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local building code and/or HUD's Housing Quality Standards. A HUD-OIG Appraiser/Construction Specialist inspected all 15 homes to determine whether they met local code and/or HUD's Standards. We used Computer Assisted Audit Techniques to analyze the County's and its administrators' records.

The audit covered the period January 1, 1997 to December 31, 2002. This period was adjusted as necessary. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the County's Executive Director, Chairman of the Board of Supervisors, and its Coordinator for the Programs.

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COMMENT ONLY

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Finding 1

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL
COMMENT ONLY

The County's Controls Over Economic Development Loans Were Inadequate

Waukesha County did not ensure that its Economic Development Loan Administrator followed Federal requirements regarding economic development loans. Specifically, the County's Loan Administrator, Waukesha County Economic Development Corporation, lacked adequate documentation to support that \$463,734 in Community Development Block Grant loan proceeds were used for eligible expenses. In addition, the County

allowed two agreements totaling \$306,000 to be executed with provisions that violated HUD's regulations. The Loan Administrator's President said he was unaware that supporting documentation must be kept for four years to support the use of Block Grant funds. The County failed to adequately monitor the Administrator to ensure that Block Grant Program loans were properly awarded and serviced. As a result, the County's Block Grant funds were not used efficiently and effectively.

The Community Development Block Grant agreements for January 1, 1998 through December 31, 2002, between HUD and Waukesha County, required the County to comply with 24 CFR Part 570.

Page 4 of Waukesha County's contracts with Waukesha County Economic Development Corporation for January 1, 1998 through December 31, 2001 required the Corporation to comply with 24 CFR 570.502.

24 CFR Parts 570.502(a)(4), 570.502(a)(14), and 570.502(b)(3)(ix) require Waukesha County to comply with 24 CFR Parts 85.20 and 85.40. Part 85.40 also requires the County's Loan Administrator to follow Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations.

Office of Management and Budget Circular A-122, Attachment B, Section 38, states pre-award costs are those incurred prior to the effective date of the award where the costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are eligible **only** to the extent that they would have been allowable if incurred after the date of the award and **only** with written approval of the awarding agency.

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24 CFR Part 84.53(b) and 24 CFR Part 570.502(b)(ix) A and B require Waukesha County to retain supporting

Federal
Requirements

Finding 1

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financial documents for a period of four years after the final Annual Performance and Evaluation Report is submitted to HUD. 24 CFR Part 85.20(b)(2) requires the County and its subrecipients to maintain records that adequately

identify the source and application of funds provided for financially-assisted activities.

24 CFR Part 85.40(a) states Waukesha County is responsible for managing the day-to-day operations of its Community Development Block Grant Program to assure compliance with applicable Federal requirements and that performance goals are being achieved. The County's monitoring must cover each program, function, or activity.

24 CFR Part 570.200(a)(2) requires that an activity of grant recipients under the Entitlement Program be assisted with Community Development Block Grant funds only if it complies with a national objective, one of which is to benefit low and moderate-income families.

We selected all 16 economic development loans totaling \$2,364,000 funded under Waukesha County's Community Development Block Grant Program to determine whether the loans met HUD's rules and regulations. The loans were awarded by the County's Loan Administrator between January 1, 1998 and December 31, 2002. The County's Block Grant Program funded an average of \$472,800 in economic development loans per year for the period reviewed.

Waukesha County and its Loan Administrator initially lacked supporting documentation for all 16 loans reviewed. During our audit, we requested documentation and the County provided support for seven of the 16 loans. However, the County lacked documentation to support the remaining nine loans totaling \$1,212,479 in Block Grant funds was expended for intended purposes as required by HUD's regulations. As of June 25, 2003, four of the nine loans were paid-off. The remaining five active loans had an outstanding balance of \$482,303. Of the \$482,303, the County and its Loan Administrator lacked documentation to support \$463,734 in Block Grant loan funds. The following table shows for each loan: the employer; award date of the loan; original loan amount; outstanding loan amount as of June 25, 2003; and the unsupported outstanding loan amount.

The County
Failed To

Provide
Supporting
Documentation
n 2004-CH-
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Scope And
Methodology

Finding 1

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL
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KCS Industries	03/23/98	\$ 150,000	\$0	\$0
TAPCO	06/08/98	150,000	0	0
On-Belay	07/26/98	150,000	0	0
Dakota Intertek Corporation	02/02/99	45,000	29,037	29,037
Twins Transport	02/23/99	200,000	0	0
Darsk, LLC/Learning Edge	03/24/00	75,000	47,019	47,019
La Casa de Esperanza	12/01/00	200,000	157,221	157,221
Innovative Plastic Technologies	11/06/01	200,000	171,048	152,479
United Press & Graphics, Inc.	12/18/02	<u>90,000</u>	77,978	<u>77,978</u>
Totals		\$1,260,000	\$482,303	\$463,734

The President of Waukesha County Economic Development Corporation, the County's Loan Administrator, said he was unaware that HUD's regulations required the County or his Corporation to maintain records that adequately identified the source and application of funds for Federally sponsored activities for a four-year period. Additionally, Waukesha County failed to adequately monitor its Loan Administrator to ensure adequate documentation was maintained to support the use of the Block Grant funds.

The loan agreements executed by the County's Loan Administrator with Phoenix International and Innovative Plastic Technologies included provisions

that violated HUD's regulations. Waukesha County did not adequately monitor its Loan Administrator to ensure the loan agreements were reviewed for compliance with Federal requirements.

The terms of Phoenix International's loan agreement for \$106,000 permitted the County's Community Development Block Grant funds to be used for purposes that did not meet the national objective of creating job opportunities for low and moderate-income persons. The agreement's terms were contrary to 24 CFR Part 570.200(a)(2) and 570.208(a)(4) that require the use of Block Grant funds to comply with a HUD national objective, one of which is to benefit low and moderate-income families through the creation of jobs. The loan agreement, which was approved by the former President of the County's Loan Administrator, specifically stated the loan would not result Page 7 2004-CH-10XX

Two Loan
Agreements
Violated
Federal
Requirements

Finding 1

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in the creation of new jobs at Phoenix International. As a result, \$106,000 in Block Grant funds was not efficiently and effectively used. The outstanding loan balance as of June 25, 2003 was \$105,998.

A provision of the \$200,000 loan agreement for Innovative Plastic Technologies permitted Block Grant funds to be used to reduce the company's accounts payable. This provision was contrary to Office of Management and Budget Circular A-122, Attachment B, Section 38, which permits pre-award costs only with written approval of the awarding agency. The \$3,428 of accounts payable was incurred prior to the loan agreement's execution date and was paid without HUD's written approval. The Loan Administrator's President said he did not know how the provision slipped by his and the loan committee's review. As a result, \$3,428 of the County's Community Development Block Grant

loan funds was used to pay inappropriate expenses. The problems occurred because Waukesha County lacked adequate controls over its economic development loan program. The County did not adequately monitor its Loan Administrator to ensure documents were maintained and contracts complied with HUD's regulations. The County's Loan Administrator did not maintain the proper documentation because its President was not aware that supporting documentation was required to be maintained for four years. As a result, HUD funds were not used efficiently and effectively. Waukesha County's Controls Over Its Program Were Not Adequate

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Finding IA - Inadequate Controls over Economic Development Loans (5 loans)

Action: WCEDC loans are provided in all cases as gap financing. Often the WCEDC loan is used to leverage other sources of funds needed for the entire loan. Waukesha County has hired legal counsel to review its existing loan procedures and loan documents and has completed the necessary revisions so job creation and use of federal funds is properly documented. Waukesha County staff acknowledges that it did not properly inform WCEDC staff of the documentation required to be retained in each loan file, nor did the primary lender mention such documentation. Waukesha County is in the process of acquiring the documentation from the **primary loan lender** to verify the use of federal funds for the five loans identified in the audit report. All documentation will be obtained within 45 days of the date of this letter. The revised loan document (attached for your review and approval), details the documentation to be obtained for each loan for job creation and use of funds. Waukesha County staff will also review all loan agreements prior to final execution to ensure all requirements and loan terms have been included in conformance with federal regulations.

The status of each loan identified follows:

USE OF FUNDS DOCUMENTATION

WCEDC has been requesting use of funds documentation for the selected loans since July 11, 2003. This process included:

1. Fax notification of the HUD-OIG audit to loan recipients.
2. Telephone follow-up to the fax request.
3. Personal visits to select loan recipient's businesses to assist in the collection of necessary documentation.

4. Contracting with a credit analyst for identifying and collecting documentation, including invoices, receipts, disbursement records, and copies of checks that support the use of funds.

We have had the cooperation of the principals of the companies, their CPA, accountants, and / or business managers, as well as the partnering financial institutions. The following table itemizes the use of funds documentation status as of Monday, October 27, 2003:

We anticipate receiving the balance of the documentation by November 14, 2003.

Company	Loan Origination Date	Purpose	Amount	#of Invoices	\$ Amount of Invoices	# of Checks	\$ Amount of Checks
Dakota Intertek Corporation	12/21/1998	Purchase Real Estate & Finance Improvements	\$45,000.00	8	\$16,322.14	0	\$0.00
Darsk, LLC	3/1/2000	Working Capital	\$75,000.00	We will be receiving Payroll List and W2's to support the \$75,000 in working capital by Tuesday (10/28/03)			
Innovative Plastic Technologies	9/5/2001	Equipment	\$200,000.00	22	\$72,794.02	20	\$88,641.50
La Casa de Esperanza	8/16/2000	Day Care Facility Development, Furniture and Fixtures	\$200,000.00	22	\$72,794.02	20	\$88,641.50
United Press & Graphics, Inc.	10/2/2002	Equipment	\$200,000.00	Completed			

IB (1) The purpose of the loan did not meet the national objective of low and moderate income job creation

Phoenix International

Waukesha County has reviewed its policies and procedures and loan agreements to require that the low and moderate income job creation requirement be met by the principal loanee and cannot be met by subcontractors or any other means. Waukesha County has also clarified the documentation that must be submitted to justify the job creation. Waukesha County has reached an agreement with the owners of Phoenix International to amend the original loan agreements to require Phoenix International to meet the low and moderate income job requirements. Waukesha County will acquire within 45 days job creation data from the subcontractors identified in the original loan agreement to confirm that jobs were created as intended by the loan agreement.

**IB (2) Ineligible expenditure of funds prior to loan agreement execution.
Innovative Plastics Technologies, Inc.**

Action: Based on the final close-out meeting, the \$3,428 in ineligible expenditures will be repaid as part of the loan repayment. The new loan documentation will reinforce the requirement that funds cannot be paid prior to the loan execution (see attachments).

IC Management Control

Waukesha County through WCEDC has hired a private legal counsel to review the current loan documents and make necessary revisions to comply with OMB Circular A-122, 24 CFR 84.53(b), 24 CFR Part 570.502(b)(ix), 24 CFR Part 85.20 (b)(2) and 24 CFR 570.200 (a) 2, as referenced in the audit findings. The revised documents are transmitted herewith for review and approval by HUD. Waukesha County will also review all approved WCEDC loans to ensure that provisions related to job creation, use of funds documentation and purpose of the loan are eligible. Waukesha County will require the prime lender to document with a ledger and accompanying cancelled checks how and what purpose the federal funds were used. Given the modifications to the WCEDC policies and procedures resulting from the previous HUD monitoring visit, these additional policy and procedures should ensure compliance with federal regulations.

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We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures Waukesha County:

Recommendations

- 1A. Provides documentation to support the use of Community Development Block Grant funds totaling \$463,734 for the five outstanding loans cited in this finding were expended for eligible activities. If documentation cannot be provided, the County should reimburse its Block Grant Program the appropriate amount from non-Federal funds.
- 1B. Reimburses its Community Development Block Grant Program \$109,426 (\$105,998 plus \$3,428) from non-Federal funds for the inappropriate use of Block Grant funds cited in this finding.
- 1C. Implements adequate procedures and controls to ensure that the County and its

administering entity comply with HUD's regulations and/or Office of Management and Budget Circular A-122 regarding the use of Community Development Block Grant funds. These improvements should help assure that the County's average economic development loans of \$472,800 meet Federal requirements.

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Finding 2

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The County Needs To Improve Its Controls To Ensure Assisted Houses Meet Local Codes And/Or HUD's Standards

Waukesha County did not follow Federal requirements and its own contracts with its housing rehabilitation administrator, Community Housing Initiative, to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards. The County inappropriately used \$1,199 of HOME funds to pay for rehabilitation work that was improperly performed and did not include almost \$1,000 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's Standards. The County also failed to assure local building permits were issued and assisted houses passed local inspections. The problems occurred because the County lacked adequate controls to assure houses met local building codes and/or HUD's Housing Quality Standards after they received housing rehabilitation assistance. As a result, HUD lacks assurance that houses met the local building codes and/or HUD's Housing Quality Standards after receiving housing rehabilitation assistance. Additionally, the County's HOME funds were not efficiently and effectively used.

The HOME Agreements for the period January 1, 2001 to December 31, 2002, between HUD and Waukesha County, required the County to comply with 24 CFR Part 92.

24 CFR, Subpart F, Part 92.251 requires housing rehabilitated with HOME funds to meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. In the absence of local code, properties rehabilitated with HOME funds must

meet, as applicable, one of three model codes or the Minimum Property Standards in 24 CFR Parts 200.925 or 200.926.

24 CFR Part 200.926 requires that state code be used where local code is not available.

24 CFR Part 92.504(a) says the County is responsible for managing the day-to-day operations of its HOME Program, ensuring that HOME funds are used in accordance with all Program requirements and written agreements, and taking appropriate action when performance problems arise.

24 CFR Part 85.40 requires grantees to be responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub- Page 11 2004-CH-10XX

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grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

The housing rehabilitation contracts for the period January 1, 2001 through December 31, 2002, between Waukesha County and Community Housing Initiative, required the Initiative to be responsible for application in-take, determining eligibility, property inspection and specification development, assistance to the homeowner in the bid process (although bidding and award is the homeowner's responsibility), completion and execution of loan documents, work inspection, and approval of contract payments.

We selected all 21 housing units that received housing rehabilitation monies from the County's housing rehabilitation administrator between March 1, 2001 and February 28, 2003. The County used \$198,479 in HOME (\$63,341) and Community Development Block Grant (\$135,138) monies from HUD to fund the housing rehabilitation for the 21 houses. We selected the 21 houses to determine whether the City appropriately

paid for housing rehabilitation work. Of the 21 houses, 15 lacked documentation to support that the units met local building code and/or HUD's Housing Quality Standards. Between July 8, 2003 and July 18, 2003, our Appraiser/Construction Specialist inspected the 15 houses. Sample Selection And Inspection Results

We provided the inspection results to HUD's Milwaukee Field Office Director of Community Planning and Development and the County's Community Development Block Grant Coordinator.

Fifteen (71 percent) of the 21 files for the properties rehabilitated with HUD funds were missing documentation necessary to assure HUD's Housing Quality Standards and/or local code were met. Ten of the 21 files contained Housing Quality Standards inspection forms, but none were signed and only two were dated. Eighteen of the 21 files had a scope of housing rehabilitation work Files Contained Incomplete Documentation

None of the scopes of housing rehabilitation work were detailed enough for our OIG Appraiser/Construction Specialist to do a cost estimate to determine the reasonableness of the work. In addition, scopes of work were 2004-CH-10XX Page 12

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not detailed enough to assure all work was completed properly. Eight of the 12 files that required proof of local building code inspections lacked any evidence of an inspection.

Waukesha County used \$1,199 of HOME funds to pay for housing rehabilitation work that was improperly performed. The improper work occurred at two of the 15 houses that we inspected. The City provided \$198,479 in housing rehabilitation assistance to the 15 houses. The County's housing rehabilitation administrator, Community Housing Initiative, recorded property liens against the two houses for the housing rehabilitation that was incorrectly performed. Funds Were Used To Pay For Rehabilitation Work That Was Improperly Performed

The County established its housing rehabilitation program to provide rehabilitation assistance to low and moderate-income

homeowners in Waukesha County. The housing assistance was intended to correct items that did not meet local codes and/or HUD's Housing Quality Standards. An Inspector for Community Housing Initiative was responsible for assuring that the housing rehabilitation work was provided in accordance with the housing rehabilitation contract and that it met local codes and/or HUD's Standards.

Our Appraiser/Construction Specialist determined that the Community Housing Initiative's Inspector did not assure that the housing rehabilitation work was performed correctly. The housing work that was performed incorrectly related to insulation at 524 South Main Street (\$999) and grab bars at South 74 West 14797 Lynn Drive (\$200). The following pictures show the housing rehabilitation work that was improperly performed.

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Community Housing Initiative's Inspector was responsible for performing the housing rehabilitation inspections and authorizing payments to the contractors. He said he must have overlooked some items that we found to be improperly performed. The Executive Director of Community Housing Initiative said no one from the County or the Initiative monitored the Inspector's inspections of the houses to ensure the housing rehabilitation work was completed according to local codes and/or HUD's Housing Quality Standards.

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Grab bars were not strong enough and could result in injury to the homeowner at South 74 West 14797 Lynn Drive.

Insulation was not installed properly at 524

South Main
Street.

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Four of 15 properties inspected by our OIG Appraiser/Construction Specialist failed to meet Housing Quality Standards and/or local codes. The housing rehabilitation administrator did not complete final inspections for six of the 15 properties, and four additional property inspections were not completed in a timely manner. The four inspections ranged between 202 and 421 days after the final draw of the housing rehabilitation funds. Contractors working on four of the properties failed to obtain required local building permits, while the work of two other contractors did not pass local inspections. The following table identifies by property address: required work that needs to be performed to ensure the houses meet HUD's Housing Quality Standards and/or local code; and estimated costs to complete the required work.

1925 Highland Avenue	<ul style="list-style-type: none"> • Smoke detector in basement was not attached and located improperly. A wall separated the detector from potential sources of fire. 	\$ 30
909 La Belle Avenue	<ul style="list-style-type: none"> • No hand rail for front steps • Deteriorated concrete at front steps - tripping hazard • Electrical outlets in bathrooms were not protected with Ground Fault Circuit Interrupter devices • Second floor bathroom is not ventilated to exterior 	60 200 150 100
341 Genesee Street	<ul style="list-style-type: none"> • No hand rail for basement stairs 	60
630 Westowne Avenue	<ul style="list-style-type: none"> • Electrical outlets near kitchen sink were not protected with Ground Fault Circuit Interrupter devices 	150 <u>200</u>

	• No hand rail for stairs to the second floor	
Total		\$ 950

The following pictures show examples of required housing rehabilitation work to ensure assisted houses met HUD's Housing Quality Standard and/or local codes.

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Four Properties
Did Not Meet
Housing Quality
Standards
And/Or Local
Codes

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Although HUD's regulations require that local codes must be enforced, Waukesha County's housing rehabilitation administrator did not assure all required local permits were obtained. Eight of the 20 required local permits were not obtained. The County's administrator took a survey to assess local codes and determined that since not all local jurisdictions applied building codes in the same way, Community Housing Initiative would adopt HUD's Housing Quality Standards as its standard. Community Housing Initiative rehabilitated houses using Community Development Block Grant and HOME Investment Program funds throughout a four-county area, which includes over 100 local jurisdictions. The administrator's Executive Director said assuring local permits were issued and rehabilitation projects passed local inspections was impractical, and that all contracts required the contractors to obtain local permits.

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Building
Permits Were
Not
Consistently
Obtained

Electrical outlets
(red arrows) were
not connected to
Ground Fault
Circuit Interrupter
devices at 630
Westowne Avenue.

No handrail
installed for
the stairway
accessing the
second floor at 630
Westowne Avenue.

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We contacted the local jurisdictions to determine whether the administrator's Executive Director was correct about the process being impractical. The process was relatively easy and given a description of the work to be done, local jurisdictions could easily advise as to the necessity for a permit, whether a permit was issued, and whether the work passed local inspection. The following table lists properties where work was done without obtaining a timely local permit and work was completed which did not pass local inspection. The table also lists the type of permit required and the type of work that did not pass local inspection.

1925 Highland Avenue	3	3	N/A	Siding, windows (including change of window to sliding door), and deck permits.
4265 North 162nd Street	3	0	1	Electrical, plumbing, and structural permits. Structural did not pass.

524 South Main Street	1	1	N/A	Work performed Oct 2001, heater permit not issued until May 2003. Not yet passed.
909 La Belle Avenue	3	3	N/A	Roof, electrical, and plumbing permits.
630 Westowne Avenue	2	1	1	Electrical/heating was pulled but never inspected. Structural permit for sliding door installation was never applied for.
Totals	12	8	2	

Waukesha County lacked procedures and controls over housing rehabilitation work as required by 24 CFR Part 92.251. Housing Quality Standards reports were not always documented, signed, and/or dated. Scope of work write-ups were vague and insufficient to determine cost reasonableness. Four scopes of work did not include items necessary to bring the properties up to HUD's Housing Quality Standards and/or local codes. Final inspections were not always completed.

Four of the 15 properties inspected failed to meet HUD's Standards and/or local codes. The issuance of local permits and results of inspections were not tracked by the County's housing rehabilitation administrator. Eight of the 20

Controls Over
Housing
Rehabilitation
Were Not
Adequate To
Ensure Houses Met
Requirements

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required building permits were not issued, while two properties which had housing permits, did not pass local inspection. As a result, HUD lacks

assurance that its Housing Quality Standards and/or local codes were met, or that funds for housing rehabilitation were spent efficiently and effectively.

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OIG Evaluation Of

We recommend that HUD's Director of Community Planning and Development, Milwaukee Field Office, assures Waukesha County:

- 2A. Ensures that the \$1,199 of housing rehabilitation work cited in this finding is completed correctly using non-Federal funds. If the County is unable to ensure the rehabilitation work is completed, then the County should reimburse its HOME Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and release the applicable liens against the properties.
- 2B. Ensures the housing rehabilitation work that was not included in the specification for the four houses is performed. If the County is unable to assure the rehabilitation work is completed, then the County should reimburse its appropriate Program from non-Federal funds for the total amount of housing assistance that was provided to the applicable houses. 2004-CH-10XX Page 18

Recommend
ations

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Finding II: Waukesha County needs to improve its control to ensure assisted houses meet local codes and / or HUD standards.

Waukesha County has reviewed your housing rehabilitation findings and will within the next 30 days correct those findings we agree upon or ask that you provide the federal citation based on our comments to support your findings. We ask for the citation so we can refer to it in future similar rehabilitation work that we may undertake (see attachments).

We will forward to you pictures of the corrected work with an inspector's certification that the work was completed to required standards and a sign-off by the homeowner that the work was completed.

II A. Incorrect Work to be Reviewed / Completed within 30 days:

524 South Main Street, we have hired an insulation contractor to review the work previously performed and will correct as necessary.

S74 W14797 Lynn Drive, we will correct grab bars upon your citation and specification provided.

II B. Waukesha County will complete the following work for the four properties identified as needing rehabilitation work within 30 days as follows: (Pictures of completed work will be sent.)

1925 Highland Avenue will install smoke alarm

909 La Belle Avenue will install handrail

(balance of work will be completed upon citation provided)

341 Genesee Street (homeowner refuses to have handrail installed will discuss with HUD) (balance of work will be completed upon citation provided)

II C. Waukesha County will revise its policies and procedures to ensure that specifications, permits and work completed is properly reviewed and documented. Since the review of specifications and completed work requires a certain amount of expertise, the county will within 60 days contract out to an independent building inspector service to conduct a ten percent (10%) random sampling of all CDBG / HOME housing rehabilitation work. The county staff will require that all building permits are obtained and both the homeowner and inspector will sign-off that work was completed. Waukesha County staff will continue to conduct internal audits including the review of the random inspector reports. Waukesha County will continue to discuss with HUD which guidelines to follow in regard to inspection, permit requirements and governing regulations. With over 100 jurisdictions participating in the HOME Consortium it is difficult to use local codes for every rehabilitation activity after HQS and State of Wisconsin Building Codes have been utilized. However, we will require the contractor on all projects to obtain the required permits and local inspection as required.

Following is a summary of our responses to your findings for each address identified:

Subject: RESPONSE TO HUD FINDINGS

INTRODUCTION:

The County's response to each of the HUD Audit Findings is organized in the following manner:

1. A restatement of the finding from the HUD Audit;

2. A summary of the relevant section of the Housing Quality Standards ("HQS") regulations (or lack of it);
3. A summary of the relevant sections of the HUD's published HQS Questions and Answers ("HQS Q&A");
4. A summary of the relevant section of the State of Wisconsin's Uniform Dwelling Code (the "Code"); and
5. The response from the County in light of the circumstances of the subject property and the requirements of the HQS Guidelines and/or the Code.

909 La Belle Ave., Oconomowoc

FINDING 1:

All supporting documentation for the statements below are found in Attachment "A":

1. HQS Guidelines for Bathrooms; and
2. Section from the HQS Q&A; and
3. Memo from the State of Wisconsin's UDC Consultant; and
4. Picture of the bathroom from the property.

HUD Finding: The HUD Inspector indicated that electrical outlets in the bathrooms were not protected with ground fault interrupter circuits.

HQS Guidelines: There are no GFI circuit requirements for bathrooms in the HQS Guidelines:

State of Wisconsin Building Code: The Code DOES NOT require ground fault interrupter circuits on existing outlets near the sink.

COUNTY Response: As there is no requirement under either the HQS Guidelines or the Code to install GFI circuits in the bathroom, it is our position that CHI correctly followed relevant governing regulations.

FINDING 2:

All supporting documentation for the statements below are found in Attachment "B":

1. HQS Guidelines for Bathrooms; and
2. HQS Q&A relating to second bathrooms; and
3. Memo from the State of Wisconsin's UDC Consultant; and
4. Picture of the bathroom from the property.

HUD Finding: The HUD Inspector indicates that the second bathroom is not ventilated with a window or vent fan.

HQS Guidelines: The HUD HQS Guidelines and the HQS Q&A expressly state that the venting requirement required for primary bathrooms does not apply to second bathrooms. The HQS Q&A states:

"1) QUESTION: IS VENTILATION REQUIRED IN A SECOND BATHROOM (Pierce Co., King Co., Longview, Walla Walla, Renton, Seattle)

ANSWER: A second bathroom must meet the requirements of "Other Rooms Used for Living," which does not specifically require ventilation. See Page 93 of Housing Quality Inspection Manual, which asks two additional questions for an additional bathroom: Does the bathroom sink have a gas trap to prevent the entrance of sewer gas? Is the second bathroom free from any serious health and sanitary problems (e.g., clogged toilet, serious water leak, entrance of sewer gas)?"

State of Wisconsin Building Code: According to the UDC State of Wisconsin Engineering Consultant, the State code does not require ventilation in any bathroom in homes built prior to 1980. This home was built in 1921.

COUNTY Response: As there is no requirement under either the HQS Guidelines or the Code to ventilate a second bathroom, it is the County's position that CHI correctly followed relevant governing regulations.

FINDING 3:

All supporting documentation for the statements below are found in Attachment "C":

1. Relevant sections of the HQS Guidelines; and
2. Sections from the HQS Q&A; and
3. Memo from the State of Wisconsin's UDC Consultant; and
4. Picture of the front porch area from the property.

HUD Finding: The HUD Inspector indicates that deteriorated concrete at front steps is a tripping hazard.

HQS Guidelines: The HUD HQS Guidelines states that site should be free from conditions that seriously and continuously endanger the health or safety of the residents.

Building Code: According to the State of Wisconsin's UDC Engineering Consultant, the State code has no requirement on trip hazard.

COUNTY Response: The County learned after interviews with CHI, the CHI Inspector tested the concrete and found concrete solid and level at the time it was inspected around September 2001. Further, the CHI Inspector indicated that the missing patch was not that large enough to be a hazard. The owner also did not find the area to be a tripping hazard.

The CHI Inspector concluded that there was not a serious enough problem to warrant spending scarce funds considering this LMI homeowner had far greater and more pressing problems to repair, namely, the roof and interior ceiling of the home. Knowing the lack of income of the household to undertake much more additional work, it is the County's position that CHI correctly exercised its judgment in applying limited funds to repair the most important areas of the house.

FINDING 4:

HUD Findings: The HUD Inspector indicates that there is no handrail for the front steps.

HQS Guidelines: The HUD HQS Guidelines States that a handrail should be installed when there are extended lengths of steps (generally four or more consecutive steps).

Building Code: According to the State of Wisconsin UDC Engineering Consultant, the Code states that more than three consecutive steps should have a handrail.

COUNTY Response: The County learned after interviews with CHI that the CHI Inspector concluded that since the five steps were in an enclosed area with a comfortable rise, that a hazard was not present and did not warrant spending scarce funds considering there was a far greater need to repair the roof and interior ceiling of the home.

Since the UDC requires that a handrail should be installed for more than three consecutive steps, the County's position is that CHI incorrectly exercised its judgment and will install a handrail at no cost to the homeowner.

S74 W14747 Lynn Drive, Muskego

FINDING 1:

All supporting documentation for the statements below are found in Attachment "D":

1. Memo from the State of Wisconsin's UDC Consultant; and
2. Picture of the bathtub area from the property.

HUD Finding: The HUD Inspector indicates grab bars installed in bathtub area is not strong enough.

HQS Guidelines: There are no requirements for grab bars installed in bathrooms in the HQS Guidelines.

Building Code: According to the State of Wisconsin UDC Engineering Consultant, the State code states that the bar must resist 200 lbs of pressure placed on the bar from all directions.

COUNTY Response: The County learned after interviews with CHI that the CHI Inspector applied his weight of greater than 200lbs, both pulling and pushing at different angles, and he could not move or bend the bar. CHI concluded that the bar was strong enough to ensure the safe use by the owner and this has proven true since the project's completion on November 26, 2002. As the HUD Inspectors did not provide any conclusive evidence to the contrary, it is the County's position that CHI properly discharged its duties in this matter.

630 Westowne Ave, Waukesha

FINDING 1:

All supporting documentation for the statements below are found in Attachment "E":

1. Relevant sections of the HQS Guidelines; and
2. Memo from the State of Wisconsin's UDC Consultant; and
3. Picture of the kitchen area from the property.

HUD Finding: The HUD Inspector indicates that electrical outlets near kitchen sink are not protected with ground fault interrupter circuits.

HQS Guidelines: There are no GFI requirements for kitchen in the HQS Guidelines.

Building Code: According to the State of Wisconsin's UDC Engineering Consultant, the Code does not require ground fault interrupter circuits on existing outlets near the sink in kitchen.

COUNTY Response: As there is no requirement under either the HQS Guidelines or the Code to install GFI circuits in the kitchen, it is the County's position that CHI correctly followed relevant governing regulations.

FINDING 2:

All supporting documentation for the statements below are found in Attachment "F":

1. Relevant sections of the HQS Guidelines; and
2. Memo from the State of Wisconsin's UDC Consultant; and
3. Picture of the kitchen area from the property.

HUD Findings: The HUD Inspector indicates that there is no handrail for the stairs to second floor

HQS Guidelines: The HUD HQS Guidelines States that there should be a handrail when there are extended lengths of steps (generally four or more consecutive steps)

Building Code: According to the State of Wisconsin UDC Engineering Consultant, the State code states that more than three consecutive steps should have a handrail.

COUNTY Response: The County learned after interviews with CHI that the CHI Inspector was expressly instructed by the owner, since it was a finished area, that she would not permit the installation of a handrail as she strongly felt that the handrail would not look good. While the UDC does require a handrail in this circumstance, the CHI Inspector felt that it was a disagreement that if the Code were followed to the letter, that it would result in the critical repairs to the house not being undertaken and would leave the homeowner in a far worse situation than simply completing the other repairs and not installing the handrail. While not consistent with the letter of the Code, the CHI Inspector believed the greater good was being accomplished. Further, the homeowner has indicated that she would not permit a handrail to be installed at this time.

In light of the homeowners' position, it is the County's position that no action be taken on this property even though CHI did not follow the letter of the Code.

1925 Highland Ave, Waukesha

FINDING 1:

All supporting documentation for the statements below are found in Attachment "G":

1. Relevant sections of the HQS Guidelines; and
2. Memo from the State of Wisconsin's UDC Consultant; and
3. Picture of the location of the smoke detector.

HUD Finding: The HUD Inspector indicates that a smoke detector was not installed in the proper location in the basement.

HQS Guidelines: The HUD HQS Guidelines states that at least one smoke detector be present and working on each level installed in accordance with the NAPA requirements. These requirements state that the smoke detector be installed on or near ceiling not less than six inches from any wall, or not less than six (6) inches or no more than twelve (12) inches from ceiling.

Building Code: According to the UDC Engineering Consultant with the State of Wisconsin, there is no requirement in the Code regarding the location of smoke detectors in existing dwellings in the basement.

COUNTY Response: The County learned after interviews with CHI that the smoke detector was battery operating and situated on top of a shelf in the basement, which meets the standards in the Code. Subsequent to the visits by the HUD Inspector, the smoke detector was moved by the Owner to the location shown on the picture. This new location also meets the code requirement. No further action is required.

524 S. Main St., Oconomowoc

HUD Findings: The HUD Inspector indicates that improper insulation was installed in the attic walls.

HQS Guidelines: The HUD HQS Guidelines has no reference to attic insulation.

Building Code: In reviewing the Code, there are no relevant code sections governing the installation of the insulation.

COUNTY Response: The County learned after interviews with CHI that this project was completed during a transition period in which the CHI Inspector in charge of the project was leaving employment with CHI. After reviewing their records, CHI has concluded that the final inspection on the attic insulation was missed. (Parenthetically, the contractor selected by the homeowner for this activity has never been used again by CHI.) From its review of the work, CHI concurs that the vapor barrier was not firmly affixed to the wall sections and that

settling has occurring. As such, CHI will correct this deficient insulation installation.

The County's position is that CHI did not properly inspect the property to ensure its compliance with relevant codes and concurs with CHI's proposed remedy. The County will require CHI to provide evidence of satisfactory completion.

341 Genesee St., Wales

HUD Findings: The HUD Inspector indicates that there is no handrail for the basement stairs

HQS Guidelines: The HUD HQS Guidelines states that a handrail is required when there are extended lengths of steps (generally four or more consecutive steps)

Building Code: According to the State of Wisconsin UDC Engineering Consultant, the State code states that more than three consecutive steps should have a handrail.

COUNTY Response: The County learned after interviews with CHI that the CHI Inspector missed this requirement during their final inspection. The County's position is that CHI will install a handrail, at no expense to the homeowner, and CHI has concurred with this corrective action.

PERMITS:

HUD Findings: The HUD Inspector indicates that there were required permits not obtained in a timely manner.

COUNTY Response: The County learned after interviews with CHI that CHI was not requiring the receipt of permits from sub-contractors who were required under the Code to obtain permits. CHI has made changes to their system to the extent that sub-contractors will not be paid for any work done that requires a permit unless they provide evidence that the work has been inspected and approved by the local building inspector.

CHI has indicated that it will ensure that the work that was not inspected at 630 Westowne Avenue will be inspected at no cost to the homeowner. However, CHI has indicated project on 4265 North 162nd Street is not yet completed and that HUD's reference to this project is inappropriate as it is not complete. CHI will ensure that all inspections are completed on this project when it is completed.

The County concurs with this corrective action by CHI and will be sure to include the review of permits during its future audits of CHI's program.

PROGRAM DOCUMENTATION AND QUALITY CONTROL:

As CHI indicated to the HUD Auditors, certain files they reviewed were completed during a transition period in which one CHI Inspector had recently left the agency and another

CHI Inspector was on medical leave. Regardless, the program's activities have been clearly defined since November 2001 and the program has been operating well.

Attachment "H" provides the full scope of duties for the CHI Housing Rehabilitation Program, which is in the possession of the County.

Based upon you providing the citation related to other rehabilitation findings, we will complete the rehabilitation work as necessary within 30 days.

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- 2C. Implements procedures and controls to ensure the County and/or its housing rehabilitation administrator follow Federal requirements and its housing rehabilitation contracts so that: (1) assisted houses meet HUD's Housing Quality Standards and/or local codes when completed; (2) specifications for housing rehabilitation work clearly detail the contracted work; (3) local building permits are obtained prior to initiating the housing rehabilitation work; and (4) assisted houses pass local inspections.

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Finding 2

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Management Controls

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Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to

reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the following items are significant weaknesses:

- Program Operations Page 21 2004-CH-10XX

Significant
Weaknesses

Relevant
Management
Controls

Management Controls

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COMMENT ONLY

The County failed to: ensure that its Economic Development Loan Administrator followed Federal requirements regarding economic development loans; and follow Federal requirements and its own contracts with its housing rehabilitation administrator, Community Housing Initiative, to ensure assisted houses met local building codes and/or HUD's Housing Quality Standards (see Findings 1 and 2).

- Compliance with Laws and Regulations

The County did not follow HUD's regulations and/or Office of Management and Budget Circular A-122 regarding: (1) maintaining documentation to

support the use of Block Grant funds for economic development loans; (2) using Block Grant funds for purposes that did not meet the national objective of creating job opportunities for low and moderate-income persons; (3) allowing Block Grant funds to pay accounts payable that was incurred prior to a loan agreement's execution date and without HUD's written approval; and (4) ensuring that assisted houses met HUD's Housing Quality Standards and/or local codes when completed (see Findings 1 and 2).

• Safeguarding Resources

The County: lacked adequate documentation to support that \$463,734 in Community Development Block Grant loan monies were used for eligible expenses: allowed \$109,426 of Block Grant funds to be used for inappropriate expenses; and inappropriately used \$1,199 of HOME funds to pay for rehabilitation work that was improperly performed.

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Follow Up On Prior Audits

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This is the first audit of Waukesha County's Community Development Block Grant and HOME Investment Partnership Programs by HUD's Office of Inspector General. The latest Independent Auditor's Report for the County covered the period ending December 31, 2001. The report contained no findings.

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Follow Up On Prior Audits

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Appendix A Schedule Of Questioned Costs And Recommendation For Funds To Be Put To Better Use

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Recommendation Type of Questioned Costs Funds To Be Put

Number Ineligible Costs 1/ Unsupported Costs 2/ To Better Use 3/

1A \$463,734

1B \$109,426

1C \$472,800

2A 1,199

Totals \$110,625 \$463,734 \$472,800

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds To Be Put To Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.

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Appendix A

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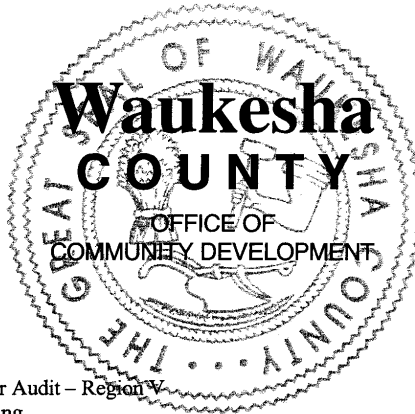
Appendix B **Auditee Comments**

DRAFT AUDIT REPORT SUBJECT TO REVIEW AND REVISION FOR OFFICIAL COMMENT ONLY

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Daniel M. Finley
County Executive

November 3, 2003



Mr. Heath Wolfe
Regional Inspector General for Audit – Region V
Ralph Metcalfe Federal Building
77 W. Jackson Blvd., Suite 2646
Chicago, Ill 60606-3507

RE; Corrective Audit Actions
Waukesha County, Wisconsin

Dear Mr. Wolfe:

Attached for your review and approval is a list of corrective actions along with pictures and / or comments related to your housing rehabilitation findings as indicated by address. Based on our submittal, we hope that these actions will remove these findings from your final audit report.

You should note that we obtained a statement from one homeowner related to a required handrail, which they do not want installed and a second opinion from an insulation contractor related to the completed work that you identified as a finding. We ask that you provide some guidance on how to proceed regarding these two findings.

In regard to your finding of properties missing GFIs being installed, we have not been able to locate any requirement under HQS or State Building Code for such installation. We have also contacted the local City of Waukesha Electrical Inspector, who indicated that there were no GFI requirements for existing properties. New housing construction regulations do not apply to rehabilitation. Further the replacement of GFI's for remodeling would only apply if the existing electrical outlet were affected. The replacement of toilets, sinks or new cabinets would not require the GFI installation. We will in the future recommend that any outlet within 6feet of a potential water hazard be replaced.

We also ask that you change the language related to the concrete steps at 909 La Belle, from a finding to an opinion. In the finding without a regulatory basis, we would like your final report to reflect that this finding is an opinion.

Sincerely,

Glen Lewinski
Community Development Coordinator

GL:kr

cc: Robert Berlan, HUD

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1320 Pewaukee Road • Room 320
Waukesha, Wisconsin 53188
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TDD: (262) 548-7903



**Community
Housing Initiative, Inc.**

The HOME Consortium's Program Administrator

259 W. Broadway, Suite 100
Waukesha, WI 53186
1.262.650.3626 (direct)
1.262.650.2706 (fax)
sfergus@c-cap.com (email)

MEMORANDUM

Date: 31 October 2003

To: Glen Lewinski

From: Scott C. Fergus

Subject: Correction of Findings

Pursuant to our conversations, this memo and attachments provide the documentation regarding those corrective actions taken by CHI in response to the HUD audit.

909 La Belle Ave., Oconomowoc

All supporting documentation for the statements below are found in Attachment "A"

HUD Findings: There is no handrail for the front steps

Action Taken: CHI installed the handrail for the front steps at no expense to the owner

341 Genesee St., Wales

All supporting documentation for the statements below are found in Attachment "B"

HUD Findings: There is no handrail for the basement steps

Action Taken: CHI installed the handrail for the basement steps at no expense to the owner

630 Westowne Ave., Waukesha

All supporting documentation for the statements below are found in Attachment "C"

HUD Findings: There is no handrail for the stairs to the second floor

Action Taken: CHI has a signed statement from the owner stating that she understands our request but does not want a handrail installed

524 South Main Street, Oconomowoc

All supporting documentation for the statements below are found in Attachment "D"

HUD Findings: The attic insulation was improperly installed

Action Taken: A consultant was brought in to advise CHI on action to be taken and stated that the work was done to industry standards

1925 Highland Ave., Waukesha

All supporting documentation for the statements below are found in Attachment "E"

HUD Findings: Smoke detector was not installed

Action Taken: The smoke detector was installed by the owner to code requirements

Please call with any questions.

